

# Realty Trust Review

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### INVESTMENT POLICY: BE READY FOR ONE MORE DOWNMOVE TO OPEN NEW BUYING OPPORTUNITY

President Carter's dramatic show of support for the dollar Nov. 1 can be expected to carry the dollar and the stock market along on firmer footing for the near-term. But you should get ready now for one more downmove, perhaps as early as year-end.

We are now operating in an environment where the widely circulated wishes of politicians are drowning out the underlying negative fundamentals. But the further away we get from the euphoria of Nov. 1 and the more visible signs appear that the Administration's dollar defense isn't working its supposed magic, or isn't working very quickly, the more selling you can expect in the stock market.

The selling of Tuesday, Nov. 7 and since has retraced nearly all the Carter announcement bounce and we think there's a real prospect that 1978's low of 742.12 may be breached fairly soon. The 1974 market slide halted with the Dow Industrials yielding 6½%; the market would have to sell off to 730 to produce an equivalent payout on today's dividends.

All this indicates that the general market should be relatively near bottom based on historical standards -- which both you and I should use as the base for investment decision in a panicky market.

Credit crunch? The big risk is that Washington's politicians will misdiagnose the mass psyche of investors and bankers and trigger actions that push us into a national or international credit crunch. The Nov. 1 action was taken openly to quell currency speculation and reverse the pervasive black mood that palsied money and stock markets. Both President Carter and Treasury Secretary Blumenthal spoke repeatedly of their desire to reverse the gloom and inflationary expectations dominating the markets. This underscores the fact that mass psychology -- especially in an era of government-dominated mass media -- is sometimes more important than the actual facts.

Thus the Carter-Federal Reserve hike of the discount rate to unprecedented 9½% practically guarantees that an 11% to 12% prime rate is about the best you can expect for 1979. That's a fact, and many economists are already pointing out that this increases chances of a recession in

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1979.

But the imponderable risk for investors is what impact that fact will have upon market participants. By drawing something of a line -- which we visualize as a 12% prime rate -- the Carter Administration effectively is telling market participants -- domestic and foreign bankers, corporate executives, investors -- that they can base their 1979 plans upon that level of interest rates.

But suppose banks or corporations start trying to hoard reserves or cash resources to protect themselves from further credit tightening? In a taut credit market, any widespread hoarding of credit could be the spark to push credit markets over the brink into a full-blown crunch. General Motors' omission of its year-end dividend is an ominous signal that corporations won't be caught short of funds and are beginning to conserve funds as a hedge against tight money. And bank loan-to-deposit ratios are near the 1974 peaks that impelled banks to rebuild liquidity in earnest, causing a brief credit crunch then.

That's why the continuing dialogue between Washington and Wall Street is such a delicate exercise in mass psychology that any unforeseen event -- crop failure, sharp changes in key prices or wages, etc. -- could have unforeseen consequences.

Right now we're basing our future investment policy on a "normal case" that the Carter Administration will be able to sell the markets that high interest rates are the best way to defend the dollar, and that the prime rate won't pierce the 12% peak of 1974. But the prime rate is at 10-3/4% as this is written and may be 11% or more by the time you read this. Events are moving so swiftly that we are rapidly nearing the tip point when a sharp and hopefully brief credit crunch will become more than a 50% probability.

But if the prime rate even sneezes over 12%, you can look for our worst-case prices as outlined below. Otherwise we'd expect normal-case prices to prevail.

## PORTFOLIO SELECTION: IT'S EASY TO BE DISCOURAGED BUT BEST HUNTING LIES AHEAD

Last issue we called this market break the "slaughter of the innocents" because we saw more truck drivers and school teachers gambling in stocks than at anytime in the last five or ten years. Most were first-time dabblers who seemed to believe that stocks only went up.

During those summer months when many were making paper fortunes in some stocks, we kept advising caution: "Build a good list of likely candidates (May 26)"; "Trusts now repaying banks suggested (Aug. 25)"; "This is the boiling market action where you can easily overpay by chasing moving stocks (Sept. 8)"; "If you're buying, protect yourself with stoploss orders because the downward ride can be breathtaking (Sept. 22)"; "We want to hold positions that can be averaged down, if necessary, during any crunch (Oct.13)".

We upgraded rankings on several stocks in the Sept. 8 Relative Appeal Rankings to prepare you for just the type of buying opportunity now unfolding. Forewarned is forearmed.

First at this juncture you have to conquer your own negative feelings, induced no doubt by lower quotes on some of your holdings and disbelief that realty trust stocks will ever come back. This is a basic human emotion and whether you're an individual or professional investor, you have to step back and look at the very broad fundamentals, as we've done in the preceding analysis of interest rates. Low prices are always the first step to good investment gains -- yet it's surprising how many investors forget this essential when prices fall.

Second, figure out where we are in the market cycle. As explained above, we think we're somewhere close to the bottom on the Dow Industrials but there could be more downside room. Our object here is not to pick a precise bottom but try to estimate bottom range of Dow prices where we could buy comfortably.

Third, we're trying to estimate



possible buying targets for individual stocks, using the experience of the 1973-74 crash in stock prices as yardsticks. In the work below we've refined this to show two buying ranges, as follows:

Normal case buying range assumes that the prime rate won't go above 12% and that the Dow won't fall very much below 700.

Worst case buying range assumes that prime will exceed 12% and perhaps rise as high as 15%, that credit will become extremely tight, and that the Dow will fall into the low 500s. We attach a 35-40% probability to this but think you should be prepared to act if it happens. And if it occurs, it could come swiftly, likely by the end of March 1979.

To take advantage of these buying ranges, we repeat our suggestion that you should eliminate margin debt and be 50% in cash or equivalents, so that you have ample buying power when this credit cycle begins turning around. If you attach a higher probability to our worst case, then get totally liquid even at today's prices.

The results of our work are shown in the table on Page 5. Study it carefully because it shows three very important numbers:

1. Impact of a 1% prime rate increase. This is shown in the table as "1% Rate Effect" and is stated in cents per share that would be sliced off annualized earnings (and dividends potentially) if the prime rate rises by 1%. Our revised earnings and dividend estimates for the fiscal years noted assume a "normal case" interest rate environment as described above. Thus for every 1% rise in prime over 12%, the annual rate of earnings (i.e., current quarter multiplied by four) would be reduced by the cents per share shown.

2. The 1973-75 panic lows. We show extremes of dividend yield and price-to-book value ratios at the panic bottoms of 1973-5 on these stocks. We don't think you'll see these yields and discounts again

unless our "Worst case" scenario prevails, and so are estimating that bottoms are most likely somewhere between today's prices and these estimated ranges.

3. An estimated buying range under normal-case and worst-case scenarios. We've cranked into the projections an estimate of annualized earnings and dividends if interest rates reach our two projected ranges over the next year or so. And finally we've related these earnings and dividend estimates to the expected yield and price/market ratios.

In working out these numbers, we've operated on the assumption that the market will understand and pay up for the fact that nearly all trusts are far less vulnerable to a credit crunch than they were in 1973. Only one trust (M&T Mtg.) is leveraged with short-term debt as highly as in 1973, and there's far less overbuilding in real estate markets. In 1973 the mortgage trusts were hit when \$11 billion construction and land acquisition loans collapsed on them. Today the trusts have only \$2½ billion invested in these volatile short-term loans and nearly 20% of these are inside three large well-managed trusts that survived the last real estate conflagration with ease: Equitable Life Mtg. & Realty, Lomas & Nettleton Mtg. Inv., and Wells Fargo M&E.

Prices of mortgage trusts could fall the farthest and since they have the highest volatility, they're for more aggressive investors. Property trusts have much less exposure to interest rate swings and offer better values for longer-term investors focusing mainly on stable income.

We have avoided making any wholesale markdowns of Rankings in this changed environment simply because most of the realty trusts are still somewhere between recovery from the blistering 1974-5 real estate recession and normal earning power. Earnings declines induced by a sharp rise in interest costs postpone but do not wipe out this recovery. It's on this basis that we are willing to continue holding our No. 1 and No. 2 stocks with the intention of averaging down as this credit crunch unfolds.

(Continued on p. 4)



But as a result of this intensive review we have moved rankings up on two trusts and lowered rankings on six. Four of the reductions are trusts we'd formerly ranked as No. 1 for their attractive discounts from hard book value and expectation that curing of non-earning assets could overcome any negative drag from a mild credit upset and higher interest rates. Now we believe the credit cycle will be much more severe and that a looming reduction in mortgage money availability will slow the sale or curing of non-earning assets.

Thus we think there's a much higher probability that the impact of higher interest rates calculated in the table on Pages 5 and 6 will not be offset fully by restoration of assets to earning status, collection of past-due interest, and gains on sales of foreclosed properties -- all items that have fueled strong earnings gains by many trusts in recent quarters.

Here are brief comments on upgraded trusts:

Mortgage Trust of America moves from No. 2N to No. 1N -- No dividend because it is making rapid strides to resume paying dividends and get on an earnings basis again. The shares now sell 54% below book value. MTA repaid all but \$4 million of its bank debt with proceeds of a Sept. hotel loan repayment and a 1% prime rate rise could only hurt earnings by 1¢/sh. a year--or ¼¢/sh. quarterly. A new bank loan agreements lets it make new investments under certain conditions but in view of money markets there's no assurance it will or can do so profitably. Trustees say they are now in position to consider dividend policy, which will depend most importantly upon using taxloss carryforwards of about \$2.05/sh. Whether payouts are resumed, even on a token basis, is probably less important to investors than availability of an authentic turnaround at an attractive discount from book value and no overhanging dilution from convertibles or warrants.

MONY Mortgage Investors moves from No. 3 to No. 2 -- Above Average because we think most of the negatives have been dis-

counted by the market. MONY sold a block of fixed-rate interim loans to its sponsoring insurance company in the Nov. quarter and thereby reduced vulnerability to prime rate swings; a 1% prime rate rise would cut earnings by about 3¢/sh. yearly now, or about a 4% reduction. MONY has been paying 23¢/sh. quarterly while earning only about 17¢. It had hoped to close that gap by adding about \$25 million new commitments per quarter in the May 1979 fiscal year, coupled with a "reasonably stable interest rate environment." Most of those hopes are now gone by the board and you can probably expect a 1¢-3¢/sh. quarterly dividend cut in the next two-three quarters. But the recent actions to reduce exposure to rate swings make the stock a buy if it dips into the 7 range as shown on the table at right.

These six trusts are reduced in expectation that non-earning assets can't be cured fast enough to offset most of the rate bite, as shown in the table at right and on page 6.

Hospital Mortgage Group plans to repay \$3 million to banks by year-end to reduce bank debt to \$6 million. Although this would leave HMG with a low 0.2 debt/equity ratio, the trust has virtually no floating-rate assets left and so higher prime eats into earnings and net cash flow directly. Some development projects will come on stream in 1979 but really won't offset the rate hikes near-term. Management has a "gut feel" that dividends at a 60¢/sh. annual rate are secure. But the shares sold way down in 1974-5 (see low price range, page 6) as the market perceived it as a smaller trust with more speculative-type assets. Considering all this, we've moved it from No. 1 to No. 3 -- Average.

Lomas & Nettleton Mortgage Inv. moves down a notch, from No. 1 to No. 2 -- Above Average. The trust says a 1% prime rate swing erodes its annual earnings base by about 8¢/sh. -- or about a 4% reduction in the \$1.92/sh. annual earnings rate reached in the Sept. quarter. This puts it on a par with MONY Mortgage (see above). Manage-

(Continued on page 6)



## PROJECTED BUYING RANGES OF TRUSTS IN A HIGH-INTEREST ENVIRONMENT

Rank-TRUST	Year	Est. Normal EPS	Div.	1% Rate Effect	Book Value	Recent Price	—1974-5 Lows— Price Yld./Dis.+	-Buy Ranges*- Normal	Worst
No. 1 Ranked Trusts									
1 -CONN.GEN.M&R.3/79..	\$2.05#	\$1.80	None	\$18.96	\$17.63	\$8.50	21%/-56%	13½-15	11-12½
1 -GEN'L.GROWTH.9/79..	1.38	1.58	None	6.38	24.13	11.00	10%/+93	19-20	17-19
1 -MASSMUT. MTG.10/79.	1.50	1.44	- 2¢	19.63	12.75	7.25	16%/-62	11½-12½	9½-11½
1 -MTG. GROWTH..11/79.	0.65#	0.64	None	10.64	6.50	2.88	25%/-74	5-6	3½-5
1N-MTG. TR. AM..11/79.	0.60	0.25	- 1¢	12.91	5.88	1.00	N11/-87	5-6	4-5
1 -PACIFIC SO... 3/79.	0.64	0.64	None	11.92	6.88	2.25	18%/-82	5½-6½	4-5½
1N-TEXAS FIRST.. 6/79.	NE	---	Fixed	8.00	3.63	0.88	N11/-89	2½-3	1½-2½
1 -UNITED RLTY..11/79.	0.84	0.84	None	17.60	8.00	3.38	22%/-81	6.75-7½	5½-6½
No. 2 Ranked - Dividend payers									
2 -BANKAMER RL.. 7/79.	1.00	1.00	- 8¢	16.92	10.88	4.75	25%/-68	9½-10	7½-8½
2 -CONT.ILL.PRO.10/79.	1.35#	1.28	None	19.66	14.38	6.13	21%/-70	12-13	10-12
2 -DENVER REIA..12/78.	NE	0.72	- 2¢	8.06	10.25	5.38	11%/-40	8-9	6½-7½
2 -FEDERAL RLTY.12/78.	1.25	1.36	None	10.03	16.25	6.75	14%/-25	12-13½	9½-11
2 -FIRST CONT'L. 2/79.	1.05	1.00	- 2¢	10.31	7.75	4.38	16%/-57	6½-7	5-6
2 -FIRST UNION..11/79.	0.90	1.08	- 2¢	8.63	10.63	5.88	16%/-31	9½-10½	8-9½
2 -FLATLEY RE... 6/79.	NE	0.20	- 1¢	7.04	4.25	1.00	17%/-85	3-4	2-3
2 -FLORIDA GULF..4/79.	1.35#	1.35	None	14.59	13.75	6.75	19%/-60	11-12	9-11
2 -GOULD INVEST..9/78.	NE	0.88	None	6.97	9.13	2.38	21%/-64	8-8½	6½-8
2 -GREIT REALTY..10/78	0.60	0.40	None	11.31	6.38	3.25	16%/-70	4½-5½	3½-4½
2 -HUBBARD REI...10/79	1.70	1.52	None	22.84	16.00	9.00	18%/-59	13½-15	11½-13
2 -ICM REALTY...10/78.	0.80	0.35	- 5¢	15.13	8.50	3.63	19%/-74	6½-7½	5½-6½
2 -INVESTORS RL.11/78.	NE	0.60	- 2¢	10.92	7.25	2.88	25%/-73	5½-6½	4½-5½
2 -JMB REALTY... 8/79.	2.00	2.00	- 3¢	19.53	16.50	6.00	23%/-67	14½-15	13-14
2 -LOMAS & NET.. 6/79.	1.90	1.90	- 8¢	27.80	15.88	11.13	27%/-65	14½-16	12-14
2 -M&T MTG. INV. 8/79.	1.10	1.10	- 1¢	10.27	9.50	3.75	28%/-63	8½-9	7-8
2 -MILLER(HEN.). 2/79.	1.00	1.00	- 1¢	16.95	14.00	4.25	14%/-74	11-12	9-11
2 -MONY MTG..... 5/79.	0.70	0.84	- 3¢	9.82	8.25	4.13	17%/-48	7-7½	6-7
2 -NATIONWIDE RE.3/79.	No est.	-Merger		24.36	13.00	2.50	32%/-90	Tender at	18-20
2 -NEW PLAN RL...7/79.	NE	0.72a	+ 2¢	2.83a	8.63a	3.17a	18%/+112	7½-8	6-7
2 -PENN REIT.....8/79.	NE	1.25	None	12.92	14.75	6.75	17%/-40	14-14½	12½-13
2 -PROP TR AMER..12/78	NE	0.28	None	7.37	4.50	1.50	28%/-78	3½-4	2½-3½
2 -RLTY.&MTG.PAC.11/78	NE	1.24	- 7¢	18.00	11.13	4.75	33%/-74	9½-10	8-9½
2 -SAN FRAN. RE..12/78	1.20+	1.20	None	19.91	15.63	2.88	N11/-86	13½-14	11½-12½
2 -SUTRO MTG.....3/79.	0.85	1.00	- 2¢	15.43	8.50	2.00	N11/-81	7½-8	6-7
2 -US BANC P M&R..5/79.	NE	0.80	-11¢	17.03	14.25	4.00	N11/-77	10-11	9-10
2 -VIRGINIA REIT.12/78	NE	0.60	None	10.08	10.50	1.50	N11/-86	7½-8	6-7½
2 -WASHINGTON RE.12/78	1.55	1.80	None	11.48	21.88	10.13	12%/- 3	18-20	16-17
No. 2 Ranked - Non-dividend payers									
2N-ALAMAND CORP..7/79.	NE	---	None	0.59	2.13	1.25	N11/ NM	1-3/4-2	1½-2
2N-ATLANTA NAT...8/79.	NE	---	- 5¢	9.00	4.38	0.25	N11/-97	3-4	2-3
2N-BARNETT WINST.9/79.	NE	---	None	Pos.	1.63	0.25	N11/ NM	1-1½	½-1
2N-BAY COLONY PR.5/79.	NE	---	None	6.16	3.50	1.50	N11/-78	2½-3	1.75-2½
2N-CAMERON BROWN.12/78	NE	---	None	7.05	2.75	1.00	N11/-87	2½-3	1.75-2½

(Table continued next page)



## PROJECTED BUYING RANGES OF TRUSTS IN A HIGH-INTEREST ENVIRONMENT - Continued

Rank-TRUST	Year	Est. Normal EPS	1% Rate Div.	Book Effect	Recent Value	Price	--1974-5 Lows-- Price Yld./Dis.+	-Buy Ranges*- Normal	Worst
No. 2 Ranked - Non-dividend papers continued									
2N-CENTRAL MTG...	3/79	0.00	----	-10¢	12.28	5.00	2.00 Nil/-84	4-5	3-4
2N-C.I. REALTY...	2/79	0.90#	----	None	16.67	11.63	1.88 Nil/-89	11-12	9-10
2N-CLEVETRUST RL.	9/79	NE	----	None	10.38	4.38	1.25 Nil/-89	3.63-4¼	2½-3½
2N-COLWELL MTG...	12/78	NE	----	None	2.90	2.00	0.38 Nil/ NM	1½-2	1-1½
2N-DIVERSIFIED M.	12/78	NE	----	- 6¢	8.46	3.25	0.88 Nil/-91	2½-3	2-2½
2N-EASTOVER CORP.	12/78	NE	----	None	11.41	7.00	3.75 Nil/-61	6¼-7	5-6¼
2N-FIRST DENVER..	9/79	NE	----	None	6.27	2.38	0.25 Nil/-93	1½-2¼	1-1½
2N-FIRST MEMPHIS.	11/78	NE	----	None	4.59	2.75	1.25 Nil/-84	2-2½	1½-2
2N-GMR PROPS.....	2/79.	NE	----	-14¢	3.73	2.13	1.00 Nil/-70	1½-2	1-1½
2N-HAMILTON INV..	12/78	NE	----	None	5.01	1.88	0.63 Nil/-89	1½-2	1-1½
2N-HANOVER SQ....	8/78	NE	----	-17¢	11.25	5.63	2.00 Nil/-82	4-5	3-4
2N-INDIANA MTG...	6/79	NE	----	None	8.78	4.00	1.25 Nil/-85	3-3½	2-3
2N-INST. INVESTOR.	1/79	NE	----	None	2.98	1.75	0.88 Nil/-70	1¼-1½	1-1¼
2N-KENTUCKY PROP..	11/78	NE	----	None	2.61	2.25	0.38 Nil/-84	1½-2	1-1½
2N-LINCOLN MTG....	3/79	NE	----	None	0.88	1.88	0.25 Nil/ NM	1-1½	½-1
2N-MARYLAND RL....	11/78	NE	----	-14¢	8.43	3.38	1.00 Nil/-88	2-3	1½-2
2N-MIDLAND MTG...	6/79.	NE	----	None	0.18	1.75	1.00 Nil/ NM	1¼-1½	3/4-1
2N-MISSION INV...	11/78	NE	----	None	4.88	3.25	0.50 Nil/-91	2¼-3	1½-2
2N-NORWSTRN FIN..	12/78	NE	----	- 6¢	14.29	7.25	1.88 Nil/-89	5-6	4-5
2N-SUMMIT PROP...	11/78	NE-Possible merger			6.73	3.25	2.00 Nil/-72	Merger poss.	
2N-TIERCO.....	12/78	NE	----	None	6.49	1.88	0.19 Nil/-95	1½-2	1-1½
2N-U.S. REALTY...	12/78	NE	----	- 4¢	3.98	5.13	1.50 Nil/-69	4¼-5	3½-4
2N-WACHOVIA RL...	8/79.	NE	----	-14¢	9.82	4.00	2.00 Nil/-83	3¼-4	2½-3
2N-WESTERN MTG...	2/79.	NE	----	- 5¢	7.77	3.25	1.50 Nil/-80	2½-3	2-2½
2N-WESTPORT CO...	10/78	NE	----	None	4.22	2.31	0.50 Nil/-88	1½-2	1-1½

## No. 3 Ranked - Selected trusts

3 -EQUIT LF MTG..	10/79	1.80	1.80	-19¢	23.43	18.00	10.00 20%/-58	14-16	12-14
3 -FRASER MTG....	5/79.	1.15	1.12	-15¢	16.64	11.00	5.25 24%/-69	9-10	7-9
3 -HOSPITAL MTG..	2/79.	0.65#	0.60	- 6¢	22.62	9.75	2.13 43%/-91	7-8½	5½-7
3N-NO.AMER. MTG..	12/78	NE	----	- 7¢	8.45	3.13	2.88 Nil/-75	2½-3	2-2½
3 -NW MUT.LF.MTG.	3/79.	0.80	1.00	- 9¢	18.97	9.88	7.88 13%/-59	8½-9½	7½-8½
3 -PNB MTG. & RL.	9/79.	0.85	0.85	-10¢	18.77	8.88	3.25 19%/-82	7-8	5½-7

# Net cash flow. + Discount or premium from stated book value at low price.

NM-Not meaningful. NE-No estimate. a-Adjusted for 3-for-2 split.

\* Normal buying range: Prime at 11%-12% in 1979; "Worst case" assumes prime at 14-15%.

## Selection - Con't. from p. 4

ment states that it expects earnings to improve on a quarter-to-quarter basis for the rest of the June 1979 fiscal year, relying on the curing of non-earning assets, now down to 15% from a 38% peak. But 79% of investments are in construction, land acquisition and land development loans, mostly residential and the sector expected

to be hardest hit by the looming mortgage money shortage. Thus while we like LOM's performance in 1974-75, we think it best to look for buying points at lower prices.

Northwestern Mutual Life Mtg. & RL.  
drops to No. 3 from No. 1 because the interest rate rise means that a 1% prime boost cuts nearly 10% from the annual earn-  
(Continued on p. 7)



Selection - NW Mut. Life - con't.

ings rate. Like MONY Mtg., NML is paying 25¢/sh. quarterly dividends but earning only about 17¢/sh. The trust says it expects to continue the dividend rate because it earned 33¢/sh. on sale of real estate in the June 1978 quarter - enough to fill the gap for about four quarters. NML has about \$97 million short-term commitments to fund and recently concluded a one-year \$10 million bank loan at a fixed rate, reducing its exposure to rate rises a bit. About 13% of investments aren't earning income and further reductions could offset the rate bite. The shares are regarded as "well sold" because holders historically haven't bailed out when interest rates soar; thus we've targeted buying prices (table at left) just a shade under quotes.

PNB Mortgage & Realty Investors has been cutting investments and repaying floating-rate bank debt and commercial paper, thus dampening exposure to rate moves. But a 1% prime rate boost would still cut about 10% from the annual rate of earnings. This compels us to lower the shares from No. 1 to No. 3 - Average. The Sept. quarter net of 24¢/sh. benefitted by about 5¢ of gains on sale of assets. The trust is advised by the mortgage banking arm of a Philadelphia bank and can offset some rate hikes by selling commercial paper through the bank's money desk. Long-term values are excellent here.

Fraser Mortgage Investments is moved to No. 3 from No. 2 because its bank debt costs will move up more quickly than its relatively small construction loan holdings. This raises near-term risk of earnings decline and the current 34% discount from \$16.64 book value (table at left) may widen a bit, opening a good buying opportunity.

North American Mortgage Investors also is carrying the burden of \$33 million bank debt at 125% of the prime rate, offset by only about \$600,000 mortgages floating with prime. Thus a 1% prime hike adds about 7¢/sh. to annualized loss. Moreover the trust says it is unlikely to have funds to repay \$16.3 million of 5½% subordinated debentures when they mature Mar. 15, 1979. All this justifies lowering of ranking to

No. 3N- Average from No. 2N.

But NAMI is the exception among non-dividend payers. As you can see from the table at left and on page 5, only 10 of the 30 trusts ranked No. 2N - no dividend and above average will feel the negative bite of rising rates. Most of the others have either locked in bank debt at fixed rates or have repaid bank debt entirely (these include Barnett Winston, C.I. Realty, Eastover, Lincoln Mtg., Midland Mtg.). Nearly all have some remaining book value and are thus rated as Above Average for price dips resulting from the coming credit tautness.

And two trusts make a bit on rising rates. New Plan Realty, a New York based property trust, has about \$1.4 million in certificates of deposit with no floating liabilities; it should make about 2¢/sh. on post-split shares (Table, p. 6). Connecticut General Mtg. & Realty likewise has more floating assets than liabilities but would only benefit by about ¼¢/sh. per year.

#### PORTFOLIO SELECTION: SHOULD YOU PLAY REIT MUTUAL FUNDS FOR THE EXPECTED RECOVERY?

Last issue we added common and preferred stock of two closed-end investment companies specializing in REITs to our statistical coverage. We've done this at request of many subscribers. (A third fund seeks open-ending and wasn't added.)

Until now we've avoided comment on the REIT funds because Audit Investment Research, Inc. and its editor are retained as subadviser to one of them, RET Income Fund, and we wanted to avoid anything that might be construed as favoritism. But now events are changing so that there's a very real possibility that the other two funds won't really be available to investors as REIT funds much longer (see below). This removes that major inhibition.

There are some major considerations you should tackle in deciding whether to play the REIT recovery via these funds.

First, all three of the funds are  
(Continued on p. 8)



Selection - REIT funds - From p. 7  
 leveraged with fixed-coupon preferred and fund managers must structure their investments to meet this payment first. This has meant that two of the funds have invested mainly in higher yielding REIT stocks and bonds, investments that haven't shared fully in the summer's resurgence in speculative non-dividend realty trusts. (The third fund, CL Assets, was caught with a large holdings of non-dividend payers and last year fell more than two years in arrears on preferred dividends; it now is seeking to convert to open-end status and exchange common for its preferred).

In down markets this also means that net asset value of the common (i.e., gross fund assets less stated value of the preferred) can drop rather sharply. Net asset value is found each Monday in The Wall Street Journal under the heading "Publicly Traded Funds." This structure means that common shareholders get less than the theoretical full benefit from leverage in up markets and are slightly more exposed in down markets.

Second, common shareholders don't receive any dividends and it's unlikely they will for some time. This results because virtually all net investment income goes to pay preferred dividends, and S.E.C. rules bar the funds from paying any excess income to common holders unless Fund assets after such payment are double (i.e., 200%) of stated preferred values. Here are brief reviews of the three REIT funds:

RET Income Fund common and preferred are listed on the ASE. Largest of the three funds, it is managed by a subsidiary of Gardner & Preston Moss, Inc., Boston investment counsel. At June 30, 1978, net assets were \$37.3 million and investments \$36.3 million, of which \$18.5 million or 51% was in straight non-REIT bonds and/or cash equivalents. The fund thus had very high liquidity.

Remaining 49% of invested assets were \$10.9 million or 31% in REIT shares; \$5.8 million or 16% in non-REIT stocks; and \$1.0 million or 3% in REIT bonds. Largest holdings by market value were: Conn. Gen. M&R, 102,000 sh. or \$1.9 million market; Equit-

able Life Mtg., 95,300 sh. for \$1.86 million; MONY Mtg., 162,000 sh. for \$1.5 million; MassMutual Mtg., 75,000 sh. for \$1.0 million; and Hotel Investors, 49,400 sh. for \$951,000.

About 15.1% of common shares are owned by Slattery Associates, Inc., New York City contracting subsidiary of Alpha Portland Industries. Capitalization:

	Mil.	\$
574,798 \$4.38 cumulative preference shares (Net value \$47.12)...	\$27.09M	
3,794,085 common shares (net asset value \$2.37 on Nov. 3).....	10.21M	
TOTAL.....	\$37.29M	

S-G Securities is also listed on the ASE and is advised by Liberty Investment Management Corp., Boston investment counsel identified with the sponsors of Mortgage Growth Inv. and North American Mtg. Inv. realty trusts.

At July 31, 1978 S-G held \$16.7 million invested assets and had \$15.4 million net assets after a \$2 million note. Investments were 5% in cash and equivalents, 46% in straight bonds (mostly electric utilities), 36% in REIT bonds, 10% in common stocks, and 3% in REIT shares.

Only REIT stock holdings were 35,100 sh. of United Realty Trust and 7,500 sh. of Realty ReFund. Largest REIT bond holdings at market were Cont. Ill. Realty, \$620,000 at market; State Mutual Inv., \$618,000; Institutional Inv. Trust, \$584,000; GMR Props., \$553,000.

Fuqua Investment Co., privately owned by Atlanta industrialist J.B. Fuqua, has bought 400,000 common or 28% and said it seeks "effective operating control." Management is suing to halt takeover. Capitalization is:

	Mil.	\$
660,000 sh. \$1.70 cumulative preference stock, \$18.65/sh.....	\$12.3M	
1,424,795 common shares (net asset value \$1.56 on Nov. 3).....	3.1	
TOTAL.....	\$15.4M	

CL Assets had \$9.7 million net assets at July 31 and common was \$7.91/sh. negative net assets at Nov. 3. It seeks to become open-ended.